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Response to the Basel Committee on Banking Supervision public consultation on principles for the effective management and supervision of climate-related financial risks

Themis Research welcomes the open consultation that the Basel Committee has run and encourage full consideration of consultation responses. Encouraging wider public participation in financial regulation is an important step in shifting international financial standard setting to contributing effectively to making societies wealthier, more stable, more equal, and more resilient.[1]

1. Themis Research welcomes that the Basel Committee has recognised the significance of climate-related financial risks to the banking system, building on the growing number of Central Banks and national regulators who are already addressing the issue.
2. However, the principles, timelines and ultimate effectiveness of the proposed measures are insufficient to address the scope of the climate crisis facing the planet. The latest reports from the International Energy Agency and the Intergovernmental Panel on Climate Change combined with the conclusions of COP 26 all send the same clear message that action far beyond what is suggested in the draft is required. The precautionary principle makes it clear that when the risks to the planet and society are so severe as the science has revealed, further analysis is not the answer – precautionary steps are needed. We have sufficient information and clear messages to know that harmful fossil fuel investments should be halted immediately. To effectively mitigate climate-related financial risks, the Basel Committee should utilise Pillar 1 capital requirements. The use of higher capital requirements against fossil fuel and deforestation exposures would have the dual effect of building sufficient capital buffers for an individual risk, and preventing the build-up of systemic risk by disincentivising these investments. The BCBS should prioritise the One-For-One rule (including precautionary Pillar 1 capital requirements) to address climate-related financial risks. The longer regulators wait to act on climate change, the more climate risks will grow. Focusing only on Pillars 2 and 3 does not match the gravity of the continued contribution from the banking sector to the causes of global environmental risk - the flow of finance to the expansion and exploration of fossil fuels and to deforestation. These contribute to climate change, to the global biodiversity crisis and to global financial instability and should be addressed through rigorous capital adequacy requirements.
3. Pillar 3 measures on disclosures and reporting are necessary but insufficient to drive the required behavioural and policy changes on their own. In addition, Pillar 3 measures should include Scope-3 GHG emissions, building on current initiatives (TCFD, GFANZ, NZBA) and aligning with forthcoming International Sustainability Standards Board standards as a first, but not sufficient step, recognising that these standards focus only on financial materiality.
4. While it is important that the Basel Committee addresses the risk to the financial system, it must also address the financial causes, not just the consequences, of climate change. The European Union has clearly demonstrated that it is possible to take a double-materiality

[1] Aizawa, M., Bradlow, D., Wachenfeld, M. "International Financial Regulatory Standards and Human Rights: Connecting the Dots," Manchester Journal of International Economic Law Volume 15, Issue 1: 2-44, 2018.

approach in regulation. Without a focus on the impacts on planet and people, the Basel Committee is failing to address the core of the problem. Not addressing these impacts on people and planet via capital requirements can increase the risk of collective failure in the longer term.

5. The Committee's mandate to address banking regulation and supervision is part of designing and building a sustainable financial system. This requires a broad focus on what sustainability requires in all its aspects and how finance can help deliver on that important objective. This task includes not only delivering financing for sustainable environmental outcomes and addressing climate change and the biodiversity crisis, but it also includes attention to the needs of a sustainable society. It follows that a sustainable future for all requires a coherent vision of how the layers of society, economy, environment, and finance interact, and the role of the financial system in facilitating sustainable livelihoods and societies. The imperative of addressing climate-related risks to the planet is inextricably linked with addressing risks to people and their human rights, and doing so in a way that gives meaning to the "just" in the "just transition" concept included in the Paris Agreement. It is through the double materiality approach that capital adequacy requirements, supervisory requirements and reporting requirements that are at the core of the Basel Committee's mandate can address these linkages that are at the heart of a sustainable financial system.
6. Recognising the idea behind the proposed Principles is to cover numerous jurisdictions, nonetheless the approach is too general and high-level do not provide for appropriate incentives or requirements for financial institutions to change their behaviour in response to climate-related financial risks. The world is facing an unprecedented crisis. The financial sector has played a significant role in bringing the crisis to a head. Clearer and bolder action is required from the Basel Committee.

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